Testimony before the
CT General Assembly Finance Committee
on
Senate Bill - 1216
by
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Chairwoman Daily, Chairwoman Widlitz, Ranking members Roraback and Williams and other members of the Finance Committee thank you for the opportunity to comment through submitted testimony. I provide comments IN SUPPORT of SB 1216.

Advantage Capital Partners background

Advantage Capital Partners is a group of venture capital and finance partnerships that has raised more than $1.3 billion in capital. Founded in 1992, the firm has grown to include offices in Avon, Connecticut, Missouri, Louisiana, New York, Texas, California, Illinois, Florida, Mississippi and Washington, D.C., with affiliated offices in Alabama, Colorado and Wisconsin.

In November, 2010, Advantage Capital raised a $72 million fund for investment in Connecticut small businesses through the updated and revised Insurance Reinvestment Fund program included in the 2010 jobs bill. This fund has been fully raised and already invested in five Connecticut businesses chosen from more than 50 applicant companies requesting $39 million in the first four months. It is clear to us that there is tremendous demand for small business and risk capital in Connecticut.

From the start, Advantage Capital has raised private funds to invest in states and communities that are underserved by traditional sources of risk capital. The firm has built a strong and successful track record of public-private partnerships with state and federal economic development organizations, facilitating the flow of billions of dollars of investment capital into these communities.

We believe SB 1216 has the potential to unlock hundreds of millions of dollars for small businesses in Connecticut through the Federal New Markets Tax Credit

The Federal New Markets Tax Credit Program

On the last day of its 2000 session, Congress created the New Markets Tax Credit program, part of the Community Renewal Tax Relief Act of 2000, to encourage investment in low-income communities. The program was originally designed to generate $15 billion in new private sector investments in low-income communities. It has since been expanded five times and projected to generate $29.5 billion of investment.

Qualified Community Development Entities (CDE) will apply to the US Department of Treasury for an award of new markets tax credits. The CDE will then seek taxpayers to make Qualifying Equity

Investments in the CDE. The CDE will in turn be required to invest this capital in qualifying businesses in low income communities. The taxpayer will be eligible to claim a tax credit equal to 5 percent of its equity investment in the CDE for each of the first three years and a 6 percent credit for each of the next four years (39 percent total).

The program is designed to allow a CDE to use its market knowledge and expertise to decide what business to invest in or lend to with the funds it raises with the new markets tax credit. Most businesses located in low-income communities could qualify for loans or equity. Typical firms could include: small technology firms, inner-city shopping centers, manufacturers, retail stores or micro-entrepreneurs. Residential rental property does not qualify as a qualified active low-income business.
As of 2011, there are hundreds of program participants with uninvested federally subsidized investment capital at their disposal. These participants are regulated and overseen by the Department of Treasury and are potential new investors in Connecticut businesses with the right incentives in place.

State tax credits as a tool to attract NMTC investments

Most states have recognized the value of these federal dollars invested in their businesses and several have taken a proactive stance to recruit NMTC investors. Eleven states have enacted state level tax credits for qualifying investments to be taken alongside of federal credits. These "add-on" tax credits have effectively gotten the attention of the national NMTC investors and these states have quickly exceeded their pro-rata share and gotten more investment than their neighbor states.

Connecticut is represented poorly in the Federal New Markets program with only ONE of 562 allocations coming to the state and a small percentage of the national total investment. Given the many small businesses seeking capital and the competitive advantages of the state in industry, quality of education offered and proximity to major markets, the state is well positioned to attract professional investment capital quickly.

The Urban Reinvestment Act as the tool to attract NMTC investors

SB1216 is a simple change to the existing successful economic development program known as the Connecticut Urban Reinvestment Act. This state program provides incentives for projects or funds that are proposing an investment that is consistent with the state's development strategy and would generate sufficient economic activity to offset the cost of the credits. This current statute contemplates attracting NMTC investors and defines CDEs for purposes of the state legislation. The current URA does, however, need these several changes to bring the state oversight in line with the federal rules and oversight and allow NMTC investors to place their federal credit investments in Connecticut.

Specifically, SB 1216 defines a new category of investor in the URA program, the "contractually-bound community development entity". By providing this definition, the statute and program would now allow a federally approved and regulated NMTC investment firm to create a Connecticut NMTC investment firm that would be bound by its approved contract with the Department of Treasury instead of a separate and often conflicting process with the State of Connecticut. These changes would put the task of oversight and potential recapture of credits to queue off of the Federal oversight rather than an annual revenue impact assessment administered by the State.

In each case where a NMTC investor would make a URA qualifying credit, the project must still be analyzed by DECD and approved by the Commissioner on both an objective and subjective basis before it could proceed. After investment however, a majority of the oversight and review for recapture would be done by the US Department of Treasury as it is for all NMTC investments across the country.

Support SB 1216

As one of more than 400 participants in the Federal New Markets Tax Credit program, we are supportive of using the Connecticut URA incentive as a tool to attract more NMTC investment. The program includes the most qualified and experienced economic development investors in the country and this resource for in-state small businesses would be well timed and strategically important.